

*“Chaos (fasad) has appeared on land and sea because of what the human hands have earned. That Allah may give them a taste of some of their deeds, in order that they may turn back (from evil)” (Al-Quran; Al-Rum- XXX: 41).*

Human beings and the world economies are caught up, as a whole, in turmoils, misfortunes and catastrophes and no solution seems to be in the minds of policy makers in the foreseeable future. The chaos and the mess are more critical and complex in the areas of economics and finance; and the greater the size of an economy and more it is advanced, grimmer are its problems. The greed and the cut-throat competition are the main feature of the prevalent system due to which the fabric of societies has been severely damaged and the human society is at the verge of devastation. It can be deduced from the holy verse quoted above that the cause of chaos, falling of calamities, business losses and systems breakdowns in the world is commission of sins and other evil acts by the human beings themselves. The situation calls for deep commitment of every individual, organizations and the States for turning to the divine law and to justice, brotherhood and social welfare.

The global financial turbulence is systemic in nature reinforced by the built-in faults and flaws. Money creation and monetary system based merely on debt proliferation and speculative finance is one of the major causes of the chaos in the global economy and finance. The debt based financial systems and the public deficit in both developed and developing countries add to the vulnerabilities of global economy. A labyrinth of financial institutions, namely, the commercial banks, investment banks, asset management firms, hedge funds, mutual funds, savings banks, insurance companies, etc are intensifying the process of widening the gap between the wealthy and the poor. These institutions have been the source of hefty profits and personal wealth for speculators and firms that are active in it. But they serve little, if any, socially useful purpose or function and do not contribute to the betterment of society or the world.

Business principles enshrined in the holy Quran and Sunnah offer an alternative vision of the society. The divine laws are designed to facilitate improvement and perfection of mankind and attainment of the ultimate happiness (*falah*). Already, some serious and wise people are talking of ‘ethical’ finance that comprises a number of attributes that may have certain impacts on the society and the human beings. The stories about corporate misconduct and financial scandals like that of

Enron, Tyco, World Com, ABB, Parmalat, etc tend to relate ethical finance only with disclosure levels and corporate governance focusing on ethical business practices, corporate responsibility and consultative decision-making.

Islamic systems of economics, business management and finance which seek to build a model society and enhance the general welfare of human beings is much more than the main stream ethical finance. A crucial factor missing in all variants of 'ethical finance' is the element of distributive justice and equity, which may be considered as the corner-stone of *riba* and *gharar* free Islamic system. As provided in the Islamic system of finance, enhanced supply of risk-related capital, restricted risk taking, balanced return rate structure based on the real assets backed economic activities, and supply of money commensurate with prospects of growth in an economy, provide a sound basis for sustainable development and evenly shared incomes for socio-economic benefit of the mankind as a whole. Further, Islam's system of corporate governance based on accountability of all to Allah (SWT) is unique and key to many of the present day problems.

For smooth functioning of the global financial system and welfare of the mankind, there is a need for changing the basis of income entitlement from risk-free to risk based techniques and effectively closing all channels of excessive uncertainty (*gharar*) based and other unjust earnings. The system that will emerge from the broader scope would have better ability to sustain in the hard times and help in solving the national and global economic problems. The balanced and pragmatic approach offered by Islamic finance needs to be adopted to cater to the socio-economic needs of the human societies suffering presently due to value and ethics neutral institutions and markets. The Holy Quran proclaims, "*He it is who hath sent His messenger with the guidance and the Religion of Truth, that He may cause it to prevail over all religion, however much the pagans / idolaters may be averse*" (IX: 33).

Over the last three decades Islamic financial system has developed rapidly and a large number of multinational conventional groups are in queue to offer 'Islamic' products. Islamic banking is considered as a must for each bank to be able to remain competitive and to expand customer base. In recent years, it gained popularity even in countries like Japan, France, Italy, Canada, Spain, CIS states, China and Australia.

But the system is currently facing several challenges, the most serious of which is lack of credibility and getting general acceptance from the jurists as well as the general public. Islamic bankers have a general tendency to wrongly exploit

the flexibilities that the Sharī'ah scholars provided them to facilitate entry into the financing field with the risk based modes of real sector business. Particularly since 2001, Islamic finance expanded as an industry to a wider domain to provide derivative products and hedging instruments that are used conventionally for speculation and that were initially considered among the prohibited areas for Islamic finance. With increasing use in the conventional finance during late 1990s, derivatives came into the grey area since 1997 and subsequently permitted since 2004-05. A notable move had been transforming the accessory nature of *w'ad* to the full-fledged contractual structures comprising complicated contracts and deals like swaps and options. Even *musharakah* and *mudarabah*, and almost all equity based *sukuk* structures, got the feature of guaranteed capital and profit. This strikes directly at the foundations of the philosophy and the objectives of the sharī'ah. As a result, *sukuk* have evolved overtime into debt based obligations and the conventional finance experts deem them at par with fixed income conventional bonds. There is a growing feeling that the 'Islamic finance industry' is more about the form than substance and has not lived up to its original ideals.

As a divine system, Islamic finance has to present a new identity based on the *maqāṭid al sharī'ah*. The emerging trends of Islamic finance imply that money creation and monetary management under Islamic framework would also base on debt creation. Pioneers like Nijatullah Siddiqi, and economists like Abbas Mirakhor and many others have already cautioned that mere debt proliferation by IFIs would accentuate inequality by diverting wealth to the supplier of finance irrespective of actual productivity of the supplied finance.

Islamic norms relating to economics, business and finance have the potential to lead the global economy to resolve the problems created by the man-made systems. Practically, however, sharī'ah norms are being stretched to meet demands of the conventional system. Islamic financial institutions (IFIs) have opted to apply Islamic principles only in their legal form by employing some stretched juristic rules while the substance has been neglected. Engineered financial products developed by wrongly invoking the tools of '*maslahah*' or '*ḥarurah*' distort the vision of Islamic business and economics as these are leading to the same economic problems as conventional products are already creating. As explained by the jurists, application of both *maslahah* and *ḥarurah* is subject to certain parameters and could provide a legal excuse to commit the forbidden barely what is indispensable for one's survival, spiritually and physically – for preservation and protection of the faith, life, intellect, posterity

and *mal*. Very concept of banking itself is not indispensable for one's survival because if such need hypothetically exists, it could rather legitimize conventional finance itself. In the words of Ibn Taymiyyah, "What constitutes a *maslahah* or a *mafsadah* is subject to the tenets of the *sharī'ah*". Any policy to achieve well-being of mankind must base on the principles and doctrines prescribed by the Creator of the Universe – The Lawgiver himself. What is harmful to be avoided, and what is useful to be adopted, cannot be left to the human mind and reasoning alone.

The only way-out of the present situation could be that the restrictive approach to achieve *sharī'ah* compliance in letter be substituted with equal focus on the substance. It is possible by application of the AAOIFI standards in true spirit and developing the monetary systems in the light of those standards. AAOIFI has done a great service by providing the *Sharī'ah* Standards for almost all transactions as per Islamic law of contracts. *Sharī'ah* scholars associated with the IFIs will have to change their policy and sanction only those products whose economic substance is helpful in achieving the objectives of *sharī'ah*. Due consideration must be given to the substance and consequences of the contracts.

The business institutions and the scholars also need to study the Islamic business ethics particularly in the context of various contemporary management theories, corporate governance issues and the concept of social responsibility. In order to develop Islamic business ethics, we need to develop a systematic body of knowledge about their relevance and significance in the contemporary business management and financial operations. As business management is a crucial part of the overall economic activity, we request contributions from scholars and the corporate leaders on various aspects of Islamic business ethics and governance characterized with divine principles of Islam. Particularly, they may focus on how to relate Islamic business ethics to human economic behavior and how to enforce these ethics in the contemporary business world. A section of the RCIB Journal will be devoted to the values-based discussions on human behaviour with regard to economy and business management and to the consideration of ethical values and governance issues. In the present Issue of the Journal we had to cover the Papers and Addresses made in the 1st international Conference on Islamic Business (ICIB-2011) which brought together a large number of scholars, experts, researchers and practitioners from around the. Allah Almighty may guide us to the right path – *Aameen*.

MUHAMMAD AYUB